

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sanilac County Road Commission	County Sanilac
Fiscal Year End 12/31/2005	Opinion Date 2/15/2006	Date Audit Report Submitted to State 6/30/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Sanilac County Road Commission
Sandusky, Michigan**

FINANCIAL STATEMENTS

December 31, 2005

Sanilac County Road Commission

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission, a component unit of Sanilac County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission as of December 31, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2005, on our consideration of the Sanilac County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the component unit financial statements that collectively comprise the Sanilac County Road Commission's basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 15, 2006

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2005

Our discussion and analysis of Sanilac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Sanilac County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Sanilac County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Sanilac County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only two funds, the general operations fund and the pension fund. All of the Sanilac County Road Commission's operating activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 19 and 20. The other supplementary information begins on page 21 and provides detailed information about the major fund.

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2005

Fund Financial Statements - continued

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Sanilac County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$42,565,896 to \$45,016,282, for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$2,450,386 during 2005. The reconstruction of nine miles and resurfacing of forty-two miles of primary road, the replacement of four major bridges and the purchase of road equipment accounted for part of the increase as these items are capitalized and expensed over their useful lives, as opposed to being expensed in the year that the roads were constructed or the equipment was placed in service.

Net assets for the years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 2,440,180	\$ 3,180,613
Capital Assets	<u>44,735,661</u>	<u>41,526,197</u>
TOTAL ASSETS	47,175,841	44,706,810
Current Liabilities	872,183	1,015,237
Noncurrent Liabilities	<u>1,287,376</u>	<u>1,125,677</u>
TOTAL LIABILITIES	2,159,559	2,140,914
Net Assets Invested in Capital Assets (Net of Related Debt)	43,555,790	40,580,771
Restricted for County Roads	<u>1,460,492</u>	<u>1,985,125</u>
TOTAL NET ASSETS	<u>\$45,016,282</u>	<u>\$42,565,896</u>

Changes in Net Assets

This is the third year of Governmental Accounting Standards Board Statement No. 34, which requires this financial reporting model. The following table presents comparison between 2004 and 2005 year data.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2005

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Program Revenues		
Charges for services	\$ 1,570,255	\$ 1,527,083
Operating grants & contributions	6,710,380	7,555,874
Capital grants & contributions	3,366,618	1,789,835
General Revenues		
Property taxes	1,754,115	1,688,510
Interest	67,973	36,708
Miscellaneous	76	3,558
Gain on equipment disposal	<u>126,608</u>	<u>14,919</u>
TOTAL REVENUES	13,596,025	12,616,487
Expenses		
Primary Roads	5,440,701	1,549,730
Local Roads	6,240,866	3,960,168
State Trunkline	1,465,245	1,425,695
Equipment – net	1,294,367	(287,391)
Administrative – net	(5,694,296)	240,126
Infrastructure depreciation	2,568,073	2,389,837
Interest expense	(177,895)	42,262
Other	<u>8,578</u>	<u>9,762</u>
TOTAL EXPENSES	<u>11,145,639</u>	<u>9,330,209</u>
INCREASE IN NET ASSETS	<u>\$ 2,450,386</u>	<u>\$ 3,286,278</u>

The Sanilac County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2005, the fund balance of the general operating fund decreased \$706,855 as compared to an increase of \$838,122 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$13,596,025, an increase of \$1,126,428 as compared to last year. Total expenditures were \$15,201,330, an increase of \$3,209,848 as compared to last year.

A summary of changes in the Operating Fund for the years ended December 31, 2005 and 2004:

	<u>Operating Fund</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
Taxes	\$ 1,754,115	\$ 1,688,510
Licenses & Permits	27,370	28,350
Federal Grants	2,150,167	1,293,393
State Grants	6,305,284	6,295,849
Contributions from local units	1,621,547	1,756,467
Charges for services	1,542,885	1,498,733
Interest & Rents	67,973	36,708
Other	76	(128,413)
Gain (loss) on equipment disposals	<u>126,608</u>	<u>-</u>
TOTAL REVENUES	13,596,025	12,469,597

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2005

	<u>2005</u>	<u>2004</u>
Expenditures		
Primary Road	\$ 5,523,280	\$ 4,371,098
Local Road	6,292,249	6,193,731
State Trunkline	1,514,793	1,475,714
Equipment – net	308,489	(232,012)
Administrative – net	295,644	279,883
Capital outlay	773,475	(344,075)
Debt service	484,822	237,361
Other	<u>8,578</u>	<u>9,782</u>
TOTAL EXPENDITURES	<u>15,201,330</u>	<u>11,991,482</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,605,305)	478,115
Other Financing Sources		
Lease proceeds	<u>898,450</u>	<u>360,007</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(706,855)	838,122
FUND BALANCE – BEGINNING	<u>2,668,829</u>	<u>1,830,707</u>
FUND BALANCE – ENDING	<u>\$ 1,961,974</u>	<u>\$ 2,668,829</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$2,731,065 higher than the original budget primarily due to the Road Commission combining two years of Federal Aid work and adding two additional critical bridge replacements to the major projects originally planned. The actual revenue recognized during 2005 was more than the final amended budget by \$276,410. There were nine (9) immaterial unfavorable variances in all of the revenue line items.

The final amended expenditures budget for 2005 was \$2,731,065 higher than the original budget primarily due to the Road Commission's decision to do two years of Federal Aid road work in the current year in addition to the scheduled projects. The actual expenditures recognized during 2005 were \$983,265 more than the final amended budget. There were unfavorable variances in several expenditure line items, the most significant variance being the heavy maintenance expenditures for primary roads.

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2005

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$44,735,661 in net capital assets. This amount represents a net increase (including additions and deductions) of \$3,209,464.

	<u>2005</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land & Improvements	\$ 66,903	\$ 66,903
Construction in progress	<u>-</u>	<u>82,375</u>
SUBTOTAL	66,903	149,278
Capital Assets Being Depreciated		
Buildings	429,111	429,111
Equipment	7,738,414	7,270,848
Depletable assets	55,450	55,450
Infrastructure	<u>62,164,852</u>	<u>58,997,237</u>
SUB-TOTAL	<u>70,387,827</u>	<u>66,752,646</u>
TOTAL CAPITAL ASSETS	70,454,730	66,901,924
TOTAL ACCUMULATED DEPRECIATION	(<u>25,719,069</u>)	(<u>25,375,727</u>)
TOTAL NET CAPITAL ASSETS	<u>\$44,735,661</u>	<u>\$41,526,197</u>

This year's major capital asset additions included the following:

Equipment	
Roads	\$ 1,586,006
Shop	64,298
Office	3,915
Engineer	1,595
Infrastructure	
Roads	3,562,058
Bridges	<u>1,595,290</u>
TOTAL	<u>\$ 6,795,162</u>

During August 2005, the Road Commission entered into 2 lease purchase agreements for motor graders for 48 months with payments of \$2,250 each month. In November, the Road Commission entered a four year lease agreement with payments of \$2,250 each month, and a fourth lease for four years with monthly payments of \$2,695. All leases had an interest rate of 4.75%.

During 2005, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineering) with a purchase amount of \$3,159,981, related accumulated depreciation of \$2,872,058, and net book value of \$287,923.

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2005

Debt

As of December 31, 2005, the Road Commission had \$1,676,985 in long-term debt (i.e., lease purchase agreements and compensated absences) outstanding versus \$1,626,050 last year:

	<u>12/31/04 Balance</u>	<u>2005 Additions</u>	<u>2005 Payments</u>	<u>12/31/05 Balance</u>
Lease Purchase Agreements	<u>\$ 945,426</u>	<u>\$ 898,450</u>	<u>\$ 664,005</u>	<u>\$ 1,179,871</u>

Other obligations include accrued vacation pay and sick leave. As of December 31, 2005, the Road Commission has a \$497,114 outstanding debt related to accumulated unused vacation pay and sick leave. As of September 30, 2003, individual employees no longer have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date are being paid out to individual employees over a five year period. The second of the five payments to individual employees was made during 2005 and accumulated vacation and sick leave obligations were reduced by \$183,510. More detailed information about the Road Commission's long-term liabilities is presented in Note D to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considers many factors when setting the fiscal year 2006 budget. The Road Commission derives approximately 46% of its revenues from the fuel tax collected. Using MDOT projections, it is estimated the Sanilac County Road Commission will receive \$5,555,733 or about \$33,136 more in MTF revenues in 2006. The Road Commission received \$1.6 million in township contributions in 2005 and we expect to do about the same amount of local road work in 2006. During 2006 we will not be doing any Federal Aid projects, but hope to have two primary bridge replacements funded. This should help rebuild our fund balance.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the 2006 budget are \$9,752,711, which is approximately \$5,000,000 less than the 2005 expenditures. Last year was an exceptional year, with the Road Commission doing two years of Federal Aid work in addition to four major bridge replacements.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Sanilac County Road Commission's administrative offices at 35 N. Flynn Street, Sandusky, Michigan 48471.

BASIC FINANCIAL STATEMENTS

Sanilac County Road Commission

STATEMENT OF NET ASSETS

December 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 913,146
Accounts receivable	2,110
Due from other governmental units	
State	1,061,902
Local	105,854
Prepaid expenses	125,551
Inventory	<u>231,617</u>
Total current assets	2,440,180
Noncurrent assets	
Capital assets not being depreciated	66,903
Capital assets, net of accumulated depreciation	<u>44,668,758</u>
Total noncurrent assets	<u>44,735,661</u>
TOTAL ASSETS	<u>47,175,841</u>
LIABILITIES	
Current liabilities	
Accounts payable	184,817
Accrued liabilities	67,112
Accrued interest payable	4,368
Due to other governmental units	
State	108
Performance bond payable	5,000
Deferred revenue	30,212
Current portion of compensated absences	248,557
Current portion of long-term debt	<u>332,009</u>
Total current liabilities	872,183
Noncurrent liabilities	
Advances	190,957
Noncurrent portion of compensated absences	248,557
Noncurrent portion of long-term debt	<u>847,862</u>
Total noncurrent liabilities	<u>1,287,376</u>
TOTAL LIABILITIES	<u>2,159,559</u>
NET ASSETS	
Invested in capital assets, net of related debt	43,555,790
Restricted for County Roads	<u>1,460,492</u>
TOTAL NET ASSETS	<u><u>\$ 45,016,282</u></u>
See accompanying notes to financial statements	

Sanilac County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

	Governmental Activities
Program Expenses	
Primary Road	\$ 5,440,701
Local Road	6,240,866
State Trunkline	1,465,245
Equipment - net	1,294,367
Administrative - net	(5,694,296)
Infrastructure depreciation	2,568,073
Interest expense	(177,895)
Other	8,578
	<hr/>
TOTAL PROGRAM EXPENSES	11,145,639
Program Revenues	
Charges for services	1,570,255
Operating grants and contributions	6,710,380
Capital grants and contributions	3,366,618
	<hr/>
TOTAL PROGRAM REVENUES	11,647,253
	<hr/>
NET PROGRAM REVENUES	501,614
General Revenues	
Property taxes	1,754,115
Interest	67,973
Miscellaneous	76
Gain on equipment disposals	126,608
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TOTAL GENERAL REVENUES	1,948,772
	<hr/>
CHANGE IN NET ASSETS	2,450,386
Net assets, beginning of the year	42,565,896
	<hr/>
Net assets, end of the year	<u>\$ 45,016,282</u>

See accompanying notes to financial statements

Sanilac County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2005

	Governmental Fund Type
	General
	Operating Fund
ASSETS	
Cash and cash equivalents	\$ 913,146
Accounts receivable	2,110
Due from other governmental units	
State of Michigan	1,061,902
Local	105,854
Prepaid expenditures	125,551
Inventory	231,617
	<hr/>
TOTAL ASSETS	\$ 2,440,180
	<hr/>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 184,817
Accrued liabilities	67,112
Due to other governmental unit	
State of Michigan	108
Performance bond payable	5,000
Deferred revenue	30,212
Advances	
State of Michigan	189,957
Local	1,000
	<hr/>
TOTAL LIABILITIES	478,206
FUND EQUITY	
Fund balance	
Reserved for inventory	231,617
Reserved for prepaids	125,551
Unreserved - undesignated	1,604,806
	<hr/>
TOTAL FUND EQUITY	1,961,974
	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,440,180
	<hr/>

See accompanying notes to financial statements

Sanilac County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balance - governmental fund **\$ 1,961,974**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 70,454,730	
Accumulated depreciation is	<u>(25,719,069)</u>	
Capital assets, net		44,735,661

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.
Long-term liabilities at year-end consist of:

Lease payable	(1,179,871)	
Accrued interest payable	(4,368)	
Compensated absences	<u>(497,114)</u>	
		<u>(1,681,353)</u>

Net assets of governmental activities **\$ 45,016,282**

See accompanying notes to financial statements.

Sanilac County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2005

	Governmental Fund Type General Operating Fund
REVENUES	
Taxes	\$ 1,754,115
Licenses and permits	27,370
Intergovernmental	10,076,998
Charges for services	1,542,885
Interest and rents	67,973
Other	126,684
TOTAL REVENUES	13,596,025
EXPENDITURES	
Current	
Primary Road	5,523,280
Local Road	6,292,249
State Trunkline	1,514,793
Equipment - net	308,489
Administrative - net	295,644
Capital outlay	773,475
Debt Service	484,822
Other	8,578
TOTAL EXPENDITURES	15,201,330
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,605,305)
OTHER FINANCING SOURCES	
Lease proceeds	898,450
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(706,855)
Fund balance, beginning of year	2,668,829
Fund balance, end of year	\$ 1,961,974

See accompanying notes to financial statements.

Sanilac County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Net change in fund balance - governmental fund **\$ (706,855)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 6,795,162	
Depreciation expense	(647,327)	
Infrastructure depreciation	<u>(2,568,073)</u>	
Excess of capital outlay over depreciation expense		3,579,762

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (370,298)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Lease proceeds	(898,450)	
Capital lease payments	<u>664,005</u>	(234,445)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

(Increase) in accrued interest payable	(1,288)	
Decrease in accrued compensated absences	<u>183,510</u>	<u>182,222</u>

Change in net assets of governmental activities **\$ 2,450,386**

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2005

	Pension Fund
ASSETS	
Cash equivalents	\$ 18,604
Investments	<u>3,950,513</u>
TOTAL ASSETS	<u>\$ 3,969,117</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 3,969,117</u>

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2005

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 205,563
Investment earnings	
Net increase in fair value of investments	302,727
Dividends	<u>114,520</u>
Total investment earnings	<u>417,247</u>
TOTAL ADDITIONS	622,810
DEDUCTIONS	
Benefits	<u>(81,029)</u>
CHANGE IN NET ASSETS	541,781
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>3,427,336</u>
End of year	<u><u>\$ 3,969,117</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sanilac County Road Commission (the "Commission") is a component unit of Sanilac County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to twenty-six (26) Townships in Sanilac County and maintains over 1,800 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Sanilac County Road Commission. The Commission is considered a component unit of Sanilac County, Michigan and is discretely presented in Sanilac County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Sandusky, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of the Commission's checking, money market account, and imprest cash. Investments consist of various money market funds, stocks and bonds.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets, (e.g., roads, bridges and similar items) are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Sanilac County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Sanilac County Treasurer's Office, and in order to make disbursements, the Sanilac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of December 31, 2005, the carrying amount of the Commission's deposits was \$913,096 and the bank balance was \$1,308,286, of which \$300,000 was covered by federal depository insurance. The remaining balance of \$1,008,286 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2005, the carrying amount and market values for the investment funds are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Uncategorized pooled investment funds:		
American Funds Retirement - Fiduciary Fund	<u>\$ 3,969,117</u>	<u>\$ 3,969,117</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has not adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash caption on the balance sheet includes \$50 in imprest cash.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Balance Jan. 1, 2005</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2005</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	<u>82,375</u>	<u>-</u>	<u>82,375</u>	<u>-0-</u>
Subtotal	149,278	-0-	82,375	66,903
Capital Assets Being Depreciated/Depleted				
Buildings	429,111	-	-	429,111
Equipment -				
Road	7,015,802	1,568,006	1,162,934	7,420,874
Shop	116,777	64,298	6,833	174,242
Office	66,225	3,915	481	69,659
Engineer	72,044	1,595	-	73,639
Infrastructure - roads	41,993,699	3,562,058	1,989,733	43,566,024
Infrastructure - bridges	17,003,538	1,595,290	-	18,598,828
Depletable assets	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	66,752,646	6,795,162	3,159,981	70,387,827

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2005	Additions and Reclassifications	Deletions	Balance Dec. 31, 2005
Less Accumulated Depreciation/Depletion				
Buildings	\$ 356,760	\$ 11,444	\$ -	\$ 368,204
Equipment -				
Road	5,706,383	602,205	875,476	5,433,112
Shop	69,240	11,633	6,368	74,505
Office	20,910	20,303	481	40,732
Engineer	64,652	1,742	-	66,394
Infrastructure - roads	14,031,426	2,216,906	1,989,733	14,258,599
Infrastructure - bridges	5,070,906	351,167	-	5,422,073
Depletion	55,450	-	-	55,450
Subtotal	<u>25,375,727</u>	<u>3,215,400</u>	<u>2,872,058</u>	<u>25,719,069</u>
Net Capital Assets Being Depreciated	<u>41,376,919</u>	<u>3,579,762</u>	<u>287,923</u>	<u>44,668,758</u>
Total Net Capital Assets	<u>\$41,526,197</u>	<u>\$ 3,579,762</u>	<u>\$ 370,298</u>	<u>\$44,735,661</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 615,580
Net Administrative Expense	31,747
Infrastructure	<u>2,568,073</u>
	<u>\$ 3,215,400</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts Due Within One Year
Governmental Activities					
Lease purchase agreements	\$ 945,426	\$ 898,450	\$ 664,005	\$ 1,179,871	\$ 149,975
Vacation and sick leave	680,624	-	183,510	497,114	248,557
	<u>\$ 1,626,050</u>	<u>\$ 898,450</u>	<u>\$ 847,515</u>	<u>\$ 1,676,985</u>	<u>\$ 398,532</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Lease purchase agreements, payable at December 31, 2005, are as follows:

The Commission purchased a Komatsu Hoe under a lease purchase agreement at a cost of \$131,500. The lease purchase agreement requires sixty consecutive monthly payments of \$1,539, which includes lease finance costs at the rate of 4.75% commencing on June 1, 2001. At the end of the lease term, the Road Commission may purchase the Hoe for \$1.

\$ 6,106

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE D: LONG-TERM DEBT - CONTINUED

The Commission purchased two Caterpillar Motor Graders, a Caterpillar Tool Carrier, and a Caterpillar Excavator under lease purchase agreements at a cost of \$530,187. The lease purchase agreements require thirty-six consecutive monthly payments of \$7,500, which includes lease finance costs at rates of 5.45% to 6.05% commencing in 2000. At the end of the term, the Road Commission may purchase the equipment for \$335,688.

\$ 7,844

The Commission purchased a Caterpillar Motor Grader under lease purchase agreement at a cost of \$193,082. The lease purchase agreement requires forty-eight consecutive monthly payments of \$2,530, which includes lease finance costs at a rate of 3.93817% commencing on September 20, 2004. At the end of the term, the Road Commission may purchase the Grader for \$93,932.

161,511

The Commission purchased a Caterpillar Motor Grader under a lease purchase agreement at a cost of \$167,715. The lease purchase agreement requires forty-eight consecutive monthly payments of \$2,110, which includes lease finance costs at the rate of 4.04% commencing on September 10, 2004. At the end of the lease term, the Road Commission may purchase the Grader for \$86,708.

140,465

The Commission purchased three Graders under lease purchase agreements at a total cost of \$532,179. The lease purchase agreements require forty-eight consecutive monthly payments of \$2,250, which include lease finance costs of 4.75% commencing in 2005. At the end of the lease terms, the Road Commission may purchase the Graders for \$286,133.

512,380

The Commission purchased a Caterpillar Motor Grader under a lease purchase agreement at a cost of \$203,666. The lease purchase agreement requires forty-eight consecutive monthly payments of \$2,695, which include lease finance costs at a rate of 4.75% commencing in 2005. At the end of the lease term, the Road Commission may purchase the Grader for \$103,471.

200,971

The Commission purchased two Loaders under a lease purchase agreement at a cost of \$163,000. The lease purchase agreement requires forty-eight consecutive monthly payments of \$1,009, which includes lease financing costs at a rate of 4.25%. At the end of the lease term, the Road Commission may purchase the Loaders for \$88,306.

150,594

\$ 1,179,871

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. As of September 30, 2003, individual employees do not have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date will be paid out to individual employees over a five year period.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$248,557 and a long-term liability of \$248,557 at December 31, 2005.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay long-term debt principal and interest outstanding for the following installment contracts at December 31, 2005, are as follows:

Year Ending December 31,	<u>Lease purchase agreements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 149,975	\$ 35,658	\$ 174,190
2007	150,501	30,753	160,936
2008	320,639	24,007	322,975
2009	<u>558,756</u>	<u>11,933</u>	<u>624,121</u>
	<u>\$ 1,179,871</u>	<u>\$ 102,351</u>	<u>\$ 1,282,222</u>

NOTE E: FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$2,150,161 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if it expended \$500,000 or more for negotiated projects.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Road Commission has a master single employer defined contribution plan called The Sanilac County Money Purchase Plan. This defined contribution plan is administered by Pension Plan Service, Inc. and is available to all employees of the Road Commission. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who are at least 21 years old and have completed six months of service are eligible to participate.

Plan provisions require that the Road Commission contribute 8 percent of each active participant's compensation and do not allow for participant contributions. The Road Commission's contributions for each employee (and earnings allocated to the employee's account) are vested at the rate of 20 percent upon completing 2 years of service, plus an additional 20 percent for each year of the next 4 years of service. Road Commission contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the Road Commission's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

The Road Commission's total payroll for the year ended December 31, 2005, was \$2,630,616. The Road Commission's contributions were calculated using the covered compensation amount of \$2,569,538. The Road Commission made the required contribution amounting to \$205,563.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTE H: RISK MANAGEMENT

Sanilac County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

Sanilac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Road Commission's employee medical benefits insurance is purchased through Blue Cross and Blue Shield.

At December 31, 2005, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Sanilac County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Sanilac County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Primary Road	\$ 4,035,405	\$ 5,523,280	\$ 1,487,875
Local Road	5,085,810	6,292,249	1,206,439
State Trunkline	1,434,500	1,514,793	80,293
Administrative	286,750	295,644	8,894
Capital Outlay	110,000	773,475	663,475
Debt Service	472,000	484,822	12,822
Other	-	8,578	8,578

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2005:

General Operating Fund	
Reserved for	
Inventory	\$ 231,617
Prepaid expenditures	<u>125,551</u>
	<u>\$ 357,168</u>

NOTE K: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Sanilac County Road Commission provides hospitalization medical coverage on a complimentary basis for any employee who retires after January 1, 1990, at age 55 with at least thirty years of service. At age 65, the employee receives supplemental coverage for himself or herself only.

For any employee who retires after age 62 and after January 1, 1990, Sanilac County Road Commission provides the retiree and his or her spouse with hospitalization medical coverage, provided however, that if the retiree's spouse, by virtue of his or her employment or otherwise, has the retiree as a covered beneficiary on his or her hospitalization medical coverage, the Road Commission will be under no obligation to provide coverage. At age 65 the retiree and or spouse coverage will be supplemental only.

The benefits are provided based on requirements of union contracts and are financed on a pay-as-you-go basis. For the year ended December 31, 2005, Sanilac County Road Commission expended \$284,106 for 34 participants currently eligible to receive benefits.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 1,700,000	\$ 1,753,400	\$ 1,754,115	\$ 715
Licenses and permits				
Permits	30,000	28,000	27,370	(630)
Intergovernmental				
Federal sources				
Critical Bridge	1,282,500	629,080	843,648	214,568
Economic development "D" funds	-	305,000	315,998	10,998
Surface transportation program	508,000	999,420	990,521	(8,899)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	2,150,600	2,640,200	2,720,663	80,463
Local road	2,750,000	2,792,600	2,791,935	(665)
Critical Bridge	93,400	584,100	662,383	78,283
Economic development funds				
Rural primary "D" funds	19,500	120,200	120,303	103
Local sources				
City and village contributions	10,000	40,500	39,224	(1,276)
Township contributions	1,720,000	1,720,000	1,582,323	(137,677)
Total intergovernmental	8,544,000	9,841,100	10,076,998	235,898
Charges for services				
State Trunkline maintenance				
Direct charges	813,500	923,500	1,073,498	149,998
Indirect charges	150,000	441,000	441,245	245
Material sales	-	15,750	15,518	(232)
Salvage sales	8,000	12,700	12,624	(76)
Total charges for services	971,500	1,392,950	1,542,885	149,935
Interest	35,000	64,000	67,973	3,973
Other				
Other	6,500	6,565	76	(6,489)
Gain on equipment disposal	-	233,600	126,608	(106,992)
Total other	6,500	240,165	126,684	(113,481)
TOTAL REVENUES	11,287,000	13,319,615	13,596,025	276,410
OTHER FINANCING SOURCES				
Lease proceeds	200,000	898,450	898,450	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 11,487,000	\$ 14,218,065	\$ 14,494,475	\$ 276,410

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Maintenance	\$ 751,500	\$ 1,179,400	\$ 1,558,362	\$ (378,962)
Heavy maintenance	2,270,000	2,850,805	3,957,560	(1,106,755)
Structure maintenance	10,000	5,200	7,358	(2,158)
Total Primary Road	3,031,500	4,035,405	5,523,280	(1,487,875)
Local Road				
Maintenance	2,131,400	3,087,550	3,908,746	(821,196)
Heavy maintenance	650,000	350,000	349,018	982
Structure maintenance	1,355,000	1,648,260	2,034,485	(386,225)
Total Local Road	4,136,400	5,085,810	6,292,249	(1,206,439)
State Trunkline				
Maintenance	913,500	1,434,500	1,514,793	(80,293)
Equipment				
Direct	1,050,000	1,350,000	1,576,860	(226,860)
Indirect	2,233,600	1,018,600	748,149	270,451
Operating	265,000	425,000	430,069	(5,069)
Less: Equipment rental	-	-	(2,446,589)	2,446,589
Total Equipment	3,548,600	2,793,600	308,489	2,485,111
Administrative				
Administration	350,000	405,000	433,259	(28,259)
Less:				
Handling charges	(10,000)	(4,400)	(8,653)	4,253
Overhead state	(75,000)	(112,225)	(127,354)	15,129
Purchase discount	-	(1,625)	(1,608)	(17)
Total Administrative	265,000	286,750	295,644	(8,894)
Capital Outlay				
Capital outlay	285,000	838,000	1,602,823	(764,823)
Less:				
Depreciation and depletion	(725,000)	(725,000)	(684,644)	(40,356)
Equipment retirements	(3,000)	(3,000)	(144,704)	141,704
Total Capital Outlay	(443,000)	110,000	773,475	(663,475)
Debt Service				
Principal payments	-	437,000	445,552	(8,552)
Interest payments	35,000	35,000	39,270	(4,270)
Total Debt Service	35,000	472,000	484,822	(12,822)
Other				
Other	-	-	8,578	(8,578)
TOTAL EXPENDITURES	\$ 11,487,000	\$ 14,218,065	\$ 15,201,330	\$ (983,265)

OTHER SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2005

TOTAL REVENUES	\$ 13,596,025
TOTAL EXPENDITURES	<u>15,201,330</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,605,305)
OTHER FINANCING SOURCES	<u>898,450</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(706,855)
Fund balance, beginning of year	<u>2,668,829</u>
Fund balance, end of year	<u><u>\$ 1,961,974</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 5,980,503	\$ 6,039,149	\$ 1,576,373	\$ 13,596,025
TOTAL EXPENDITURES	<u>6,823,782</u>	<u>6,652,824</u>	<u>1,724,724</u>	<u>15,201,330</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(843,279)	(613,675)	(148,351)	(1,605,305)
OTHER FINANCING SOURCES				
Lease proceeds	<u>-</u>	<u>898,450</u>	<u>-</u>	<u>898,450</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(843,279)	284,775	(148,351)	(706,855)
Fund balance, beginning of year	<u>1,921,944</u>	<u>241,123</u>	<u>505,762</u>	<u>2,668,829</u>
Fund balance, end of year	<u><u>\$ 1,078,665</u></u>	<u><u>\$ 525,898</u></u>	<u><u>\$ 357,411</u></u>	<u><u>\$ 1,961,974</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Taxes	\$ 1,754,115	\$ -	\$ -	\$ 1,754,115
Licenses and permits				
Permits	-	-	27,370	27,370
Intergovernmental				
Federal sources	1,306,519	843,648	-	2,150,167
State sources	2,846,366	3,458,918	-	6,305,284
Local sources	-	1,621,547	-	1,621,547
Total intergovernmental	4,152,885	5,924,113	-0-	10,076,998
Charges for services				
State Trunkline				
Direct charges	-	-	1,073,498	1,073,498
Indirect charges	-	-	441,245	441,245
Material sales	-	15,518	-	15,518
Salvage sales	-	12,624	-	12,624
Total charges for services	-0-	28,142	1,514,743	1,542,885
Interest	16,529	51,444	-	67,973
Other				
Other	-	-	76	76
Gain on sale of equipment	56,974	35,450	34,184	126,608
Total other	56,974	35,450	34,260	126,684
TOTAL REVENUES	5,980,503	6,039,149	1,576,373	13,596,025
OTHER FINANCING SOURCES				
Lease proceeds	-	898,450	-	898,450
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 5,980,503	\$ 6,937,599	\$ 1,576,373	\$ 14,494,475

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Heavy Maintenance	\$ 3,957,560	\$ 349,018	\$ -	\$ 4,306,578
Structure Maintenance	7,358	2,034,485	-	2,041,843
Maintenance	1,558,362	3,908,746	-	5,467,108
State Trunkline	-	-	1,514,793	1,514,793
Equipment Expense - Net	74,315	184,538	49,636	308,489
Administrative Expense - Net	138,202	157,442	-	295,644
Capital Outlay - Net	603,163	18,595	151,717	773,475
Debt Service	484,822	-	-	484,822
Other	-	-	8,578	8,578
TOTAL EXPENDITURES	<u>\$ 6,823,782</u>	<u>\$ 6,652,824</u>	<u>\$ 1,724,724</u>	<u>\$ 15,201,330</u>

Sanilac County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2005

	Balance Jan. 1, 2005	Additions and Reclassifications	Deletions	Balance Dec. 31, 2005
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	82,375	-	82,375	-
Subtotal	149,278	-0-	82,375	66,903
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	429,111	-	-	429,111
Equipment				
Road	7,015,802	1,568,006	1,162,934	7,420,874
Shop	116,777	64,298	6,833	174,242
Office	66,225	3,915	481	69,659
Engineer	72,044	1,595	-	73,639
Infrastructure - Roads	41,993,699	3,562,058	1,989,733	43,566,024
Infrastructure - Bridges	17,003,538	1,595,290	-	18,598,828
Depletable assets	55,450	-	-	55,450
Subtotal	66,752,646	6,795,162	3,159,981	70,387,827
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	356,760	11,444	-	368,204
Equipment				
Road	5,706,383	602,205	875,476	5,433,112
Shop	69,240	11,633	6,368	74,505
Office	20,910	20,303	481	40,732
Engineer	64,652	1,742	-	66,394
Infrastructure - Roads	14,031,426	2,216,906	1,989,733	14,258,599
Infrastructure - Bridges	5,070,906	351,167	-	5,422,073
Depletion	55,450	-	-	55,450
Subtotal	25,375,727	3,215,400	2,872,058	25,719,069
Net Capital Assets Being Depreciated	41,376,919	3,579,762	287,923	44,668,758
Total Net Capital Assets	<u>\$ 41,526,197</u>	<u>\$ 3,579,762</u>	<u>\$ 370,298</u>	<u>\$ 44,735,661</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the component unit financial statements of the governmental activities, the major fund, and the aggregate remaining information of the Sanilac County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sanilac County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sanilac County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioner's and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 15, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Principals

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East Lansing, MI 48823
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FAX: (517) 351-6837

MANAGEMENT LETTER

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

Dear Commissioners:

As you know, we have recently completed our audit of the records of the Sanilac County Road Commission for the year ended December 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Commission should adopt and implement a conflict of interest policy.

During the course of our audit, we noted the Commission has not developed or implemented a policy concerning conflict of interest as part of the policy manual. A conflict of interest policy will clarify the Commission's position on ethical behavior and communicate that position to employees and board members. A similar issue was noted and reported in our audit comments last year.

We suggest the Commission develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and board members. The Commission should also obtain conflict of interest disclosure statements from its employees and board members.

2. Budgets should be monitored and amended prior to expenditure of funds when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Road Commission exceeded the amounts appropriated. This issue was noted and reported in our audit comments last year.

The Michigan Public Act 621 of 1978, as amended, provides that the Road Commission adopt formal budgets for applicable Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We suggest the Road Commission monitor expenditures against the adopted budget on a periodic basis, preferable monthly.

3. The Commission should adopt and implement a formal credit card policy.

During the course of our audit, we noted that the Road Commission uses credit cards, but does not have a formal credit card policy in place. Public Act 266 of 1995 states that a local unit of government shall not be a party to a credit card arrangement unless the governing body of the local unit has adopted by resolution a written credit card policy.

We suggest the Commission adopt and implement a written credit card policy. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment;
- h. The balance, including interest, must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the Commission considers advisable.

4. The Commission should monitor credit card usage.

During our examination of credit card transactions, we noted that credit card usage is not being monitored. In nine (9) of the eleven (11) transactions that we examined, we noted that detailed receipts were missing and of the receipts present, many were not signed. We also noted instances where the Road Commission paid sales tax.

We suggest the Road Commission monitor usage of credit cards to ensure that all receipts are present and signed. We also suggest that the Road Commission does not pay sales tax, as they are exempt.

5. The Commission should adopt and implement a formal travel policy.

During the course of our audit, we noted that the Road Commission incurred travel expenses, but does not have a formal travel policy in place. It was noted that the Road Commission incurred a significant amount more in travel and education expenditures in comparison to prior years.

We suggest the Commission adopt and implement a formal policy related to travel. This policy should address specific dollar limits for meals, hotels, and airfare for overnight travel, and reimbursement policies and procedures for out-of-pocket expenses, including fuel and mileage.

6. The Board should amend the Commission's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Road Commission has not amended their investment policy to addresses the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Road Commission's governmental and fiduciary funds. These resources are necessary for the delivery of the Road Commission's services and programs, or to carry out its fiduciary responsibilities. Effective for the year ended December 31, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Road Commission's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Road Commission's financial statements by GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the component unit financial statements dated February 15, 2006.

This report is intended solely for the use of management and the Board of County Road Commissioners of Sanilac County and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 15, 2006